

**IN THE UNITED STATES BANKRUPTCY COURT
FOR THE DISTRICT OF MARYLAND
(BALTIMORE DIVISION)**

IN RE:

NETFAX, INC.,

Debtor.

* * * * *

FREDERICK J. MURPHY,

Movant,

v.

JOSEPH J. BELLINGER, TRUSTEE,

Respondent.

* * * * *

Case Number: 02-5-7777-SD

Chapter 7

RECEIVED

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**MOTION OF FREDERICK J. MURPHY
FOR RELIEF FROM THE AUTOMATIC STAY**

Pursuant to Section 362 of the United States Bankruptcy Code and Federal Rules of Bankruptcy Procedure 4001, 9013 and 9014, Frederick J. Murphy ("Murphy"), by his undersigned counsel, hereby moves for relief from the automatic stay to permit him to file a petition with the United States Patent and Trademark Office (the "USPTO") for a determination whether certain patent applications are "divisional applications" or "continuation-in-part applications." This determination will ultimately establish whether the bankruptcy estate of Netfax, Inc. ("Netfax") holds title to the patent applications. Joseph J. Bellinger ("Bellinger" or the "Trustee"), Chapter 7 trustee for the Netfax bankruptcy estate, claims that the patent applications are property of the bankruptcy estate and has filed a motion requesting authority to

sell the patent applications and other intellectual property. As more fully described below, Murphy disputes that the applications are property of the bankruptcy estate and claims ownership of the applications. Murphy now seeks relief from the automatic stay so that he may petition the USPTO to determine whether the applications are divisional applications or continuation-in-part applications. As further explained below, if the applications are continuation-in-part applications, Murphy retains title to the applications. Murphy submits that a determination by the USPTO is necessary to establish clear title to the applications. In further support of this Motion, Murphy respectfully states as follows:

PARTIES, JURISDICTION AND VENUE

1. Murphy is an individual residing at 126 Ambleside Drive, Falmouth, Massachusetts 02540.
2. Netfax filed a voluntary petition for relief in this Court under Chapter 11 of the United States Bankruptcy Code (the "Bankruptcy Code") on May 14, 2002 (the "Petition Date"). On or about June 21, 2002, this Court entered an order converting this case to a Chapter 7 proceeding.
3. Bellinger was appointed trustee for the Netfax bankruptcy estate and continues to serve in that capacity.
4. This Court has jurisdiction over this adversary proceeding pursuant to 28 U.S.C. §§ 157 and 1334 and 11 U.S.C. § 362.
5. This is a core proceeding within the meaning of 28 U.S.C. § 157(b)(2)(G).
6. Venue is proper in this Court pursuant to 28 U.S.C. § 1409.

STATEMENT OF FACTS

7. Murphy is the sole inventor on the following six patent applications:
- a. On November 13, 1995, Murphy filed an original patent application U.S. Serial No. 08/555,911 (the "Original Application") with the USPTO. The Original Application has not issued as a mature patent and, on information and belief, is still pending before the USPTO.
 - b. Patent application U.S. Serial No. 09/184,972 (the "'972 Application") was filed on November 3, 1998 as a divisional application of the Original Application. The '972 Application issued as U.S. Patent Number 6,028,679 entitled *Internet Global Area Networks Fax System* (the "Issued Patent") on February 22, 2000.
 - c. Patent application U.S. Serial No. 09/506,925 (the "'925 Application") was filed as a divisional application of the '972 Application on February 18, 2000. On information and belief, the '925 Application was abandoned effective June 30, 2004 due to the failure of Netfax to respond to a communication from the USPTO within the extended statutory period for response.
 - d. On June 11, 2001, the following three applications were filed:
 - i. Patent application U.S. Serial Number 09/877,238, titled *Method and apparatus for interfacing a plurality of devices to a computer network* (published application US2002/0036791A1, published March 28, 2002) (the "'238 Application");
 - ii. Patent application U.S. Serial Number 09/877,239, titled *Method and apparatus for delivery of facsimile documents over a computer network* (published application US2002/0033961A1, published March 21, 2002) (the "'239 Application"); and
 - iii. Patent application U.S. Serial Number 09/877,240, titled *Method and apparatus for delivery of digital images over a computer network* (published application US2002/0036792A2, published March 28, 2002) (the "'240 Application" and, collectively with the '238 Application and the '239 Application, the "2001 Applications").
8. According to the public records of the USPTO, on October 30, 1996, Thomas Peterson ("Peterson") filed a "Recordation of Assignment", accompanied by a document titled "Assignment", which provides that Murphy assigned to Netfax all of his right, title and interest

in the Original Application and any divisions and continuations thereof (the "Assignment"). The public records indicate that the Assignment has an effective recordation date of November 4, 1996. The Assignment does not extend to continuation-in-part applications of the Original Application. A true and correct copy of the Assignment obtained from the USPTO public records is attached hereto as EXHIBIT A.

9. As a result of Murphy's assignment of the Original Application, Murphy also assigned all of his right, title and interest in the '925 Application, a divisional patent. The assignment of the Original Application did not result in an assignment of the 2001 Applications because, although the 2001 Applications were published with a designation of "divisional" on the face of the applications, they are actually continuation-in-part applications because they contain additional subject matter.

10. On information and belief, Netfax delegated authority to control prosecution of the '925 Application to Peterson. Netfax abandoned all of Netfax's rights in and under the '925 Application by failing to respond to a final office action mailed by the USPTO in December 2003 by the extended statutory bar date of June 30, 2004.

11. Murphy has never assigned any of his right, title or interest under the 2001 Applications and therefore remains the owner of the 2001 Applications. See 37 C.F.R. § 3.73(a) ("The inventor is presumed to be the owner of a patent application, and any patent that may issue therefrom, unless there is an assignment.").

12. The Issued Patent is widely regarded as the pioneer Internet fax patent. The 2001 Applications are generally directed toward transformation and delivery of documents or other data over computer networks, certified delivery of electronic documents and value bearing

instruments over computer networks, and certain leading edge digital certificate and data transport encryption processes.

13. In the Netfax bankruptcy case, the Trustee has claimed that the 2001 Applications constitute property of the Netfax bankruptcy estate.

14. On or about April 6, 2004, the Trustee filed his Motion for Authority to Sell the Bankruptcy Estate's Interest in Intellectual Property Subject to Pre-Petition Secured Claims and Free and Clear of Post-Petition Secured Claims (the "Motion to Sell"), pursuant to which the Trustee requests this Court authorize him to sell certain intellectual property, including the 2001 Applications, to Firstin, Inc. ("Firstin") or such party that makes a higher and better offer to purchase the property.

REQUEST FOR RELIEF

15. Murphy requests that this Court terminate the automatic stay imposed by Section 362(a) to permit Murphy to file a petition with the USPTO for a determination whether each of the 2001 Applications is a "divisional application" as stated on the face of the corresponding published application or a "continuation-in-part application" based on the additional subject matter included in each of the 2001 applications but not found in the prior '925 Application. Attached hereto as EXHIBIT B is a draft petitions relating to the '238 Application. (The exhibits to the draft petitions are voluminous and therefore are not attached to service copies. Copies of the exhibits are available upon request to the undersigned counsel.) If this Motion is granted, Murphy will prepare and file petitions in substantially the same form for the '239 Application and the '240 Application.

16. A "divisional" application is "[a] later application for an independent or distinct invention, carved out of a pending application and disclosing and claiming only subject matter

disclosed in the earlier or parent application." Manual of Patent Examining Procedure § 201.06.

A. "continuation-in-part" application is "an application filed during the lifetime of an earlier nonprovisional application, repeating some substantial portion or all of the earlier nonprovisional application and *adding matter not disclosed* in the said earlier nonprovisional application." Manual of Patent Examining Procedure § 201.08 (emphasis in original). The distinction is important because "a prior assignment recorded against the original application is applied to the division or continuation application because the assignment recorded against the original application gives the assignee rights to the subject matter common to both applications." Manual of Patent Examining Procedure § 306. However, "a prior assignment of the original application is not applied to the substitute or continuation-in-part application because the assignment recorded against the original application gives the assignee rights to only the subject matter common to both applications." *Id.* "Substitute or continuation-in-part applications require a new assignment if they are to be issued to an assignee." *Id.*

17. Determination by the USPTO is necessary to clarify whether Murphy retains title to the 2001 Applications, which is initially vested in the inventor and remains with the inventor absent an assignment, and whether he therefore retains the right to take action before the USPTO with respect to the 2001 Applications. If the USPTO determines that the 2001 Applications are continuation-in-part applications, Murphy holds title to each of the 2001 Applications because continuation-in-part applications require a new assignment. Until the nature of the applications is determined, title to the 2001 Applications is in dispute and no purchaser can obtain clear title to them.

BASIS FOR RELIEF

18. Section 362(d) provides as follows:

On request of a party in interest and after notice and a hearing, the court shall grant relief from the stay provided under subsection (a) of this section, such as by terminating, annulling, modifying, or conditioning such stay –

(1) For cause, including the lack of adequate protection of an interest in property of such party in interest;

(2) with respect to stay of an act against property under subsection (a) of this section, if –

(A) the debtor does not have any equity in such property; and

(B) such property is not necessary to an effective reorganization.

19. Because “cause” is not defined in the Bankruptcy Code, bankruptcy courts must determine when discretionary relief is appropriate on a case-by-case basis. *Claughton v. Mixson*, 33 F.3d 4, 5 (4th Cir. 1994). The legislative history of Section 362 states that “cause” may be established by a single factor such as “a desire to permit an action to proceed ... in another tribunal” or lack of any “interference with the pending bankruptcy case.” *In re Rexene Products Co.*, 141 B.R. 574, 576 (Bankr. D. Del. 1992) (citing H.R. Rep. No. 95-595, 95th Cong., 1st Sess., 341 (1977)). In determining whether “cause” exists, bankruptcy courts have “broad discretion.” *Claughton*, 33 F.3d at 5.

20. The Fourth Circuit has articulated three factors courts should consider in deciding whether “cause” has been shown for modification of the automatic stay to permit the prosecution of litigation against the debtor in another forum. These factors include: (1) whether the issues in the pending litigation involve non-bankruptcy law, so the expertise of the bankruptcy court is unnecessary; (2) whether modifying the stay will promote judicial economy and whether there would be greater interference with the bankruptcy case if the stay were not lifted because matters

would have to be litigated in bankruptcy court; and (3) whether the estate can be protected properly by a requirement that creditors seek enforcement of any judgment through the bankruptcy court. *Robbins v. Robbins (In re Robbins)*, 964 F.2d 342, 345 (4th Cir. 1992). When applied to this case, these factors overwhelmingly support modification of the automatic stay to permit Murphy to file the petition with the USPTO.

21. Here, the issue that must be decided is whether the 2001 Applications are "divisional applications" or "continuation-in-part applications." This issue implicates only non-bankruptcy law. Therefore, the expertise of this Court is not necessary. Moreover, such determination lies within the exclusive jurisdiction of the USPTO. *See, e.g., Display Research Laboratories, Inc. v. Telegen Corp.*, 133 F.Supp.2d 1170 (N.D. Cal. 2001) (district court did not have jurisdiction over request for declaratory judgment because patent had not been issued yet; prior to issuance of patent, USPTO has sole jurisdiction over dispute relating to title to patent); *Fordham v. Onesoft Corp.*, 2001 WL 641759 (E.D. Va. Jan. 24, 2001) (USPTO has exclusive jurisdiction with respect to competing claims to pending patent applications). "Until a patent is issued, the Court's involvement would be premature and would encroach on the administrative function of the Commissioner [of the USPTO]." *Display Research Laboratories*, 133 F.Supp.2d at 1174.

22. The second factor, promotion of judicial economy, also supports modification of the stay. The USPTO, which issues divisional and continuation-in-part applications, is uniquely qualified to determine whether an application is a divisional or continuation-in-part. The USPTO is the most appropriate forum to efficiently address the issues presented and to grant complete relief without any interference with the bankruptcy proceedings.

23. Finally, with respect to the third factor, protection of the estate, modification of the stay will not in any way harm the estate or the interests of creditors. Whatever interest the estate has in the 2001 Applications, the estate has. The determination by the USPTO of the titleholder of the 2001 Applications can not increase or diminish the estate's interest. Murphy seeks to maintain the *status quo* in the bankruptcy case until the USPTO makes the necessary determination. It is in the best interest of the Netfax estate for the USPTO to promptly determine whether the estate holds title to the 2001 Applications. Without this determination by the USPTO, no purchaser in the bankruptcy case can obtain clear title to the applications.

24. In addition to the foregoing, relief from the stay should be granted because the 2001 Applications are not necessary for an effective reorganization.

25. Pursuant to Local Bankruptcy Rule 9013-2, Murphy will rely solely on the grounds and authorities set forth herein and will not submit a memorandum in support of this Motion.

WHEREFORE, Murphy requests that this Court enter an order:

A. Modifying the automatic stay imposed by Section 362(a) to permit Murphy to file petitions with the USPTO for determinations whether each of the 2001 Applications are "divisional applications" or "continuation-in-part applications" and to take all actions necessary to effectuate and facilitate the filing of the petitions (including, without limitation, filing a revocation of the existing power of attorney on file for each of the 2001 Applications and filing a new power of attorney); and

B. Granting Murphy such other and further relief as is just and appropriate under the circumstances.

Dated: August 10, 2004

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CERTIFICATE OF SERVICE

I HEREBY CERTIFY that on the 10th day of August, 2004, copies of the foregoing Motion of Frederick J. Murphy for Relief from the Automatic Stay were served on the parties on the attached service list by first class mail, postage prepaid, and on the following by overnight mail:

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**IN THE UNITED STATES BANKRUPTCY COURT
FOR THE DISTRICT OF MARYLAND
(BALTIMORE DIVISION)**

IN RE:

NETFAX, INC.,

Debtor.

Case Number: 02-5-7777-SD

Chapter 7

FREDERICK J. MURPHY,

Movant,

v.

JOSEPH J. BELLINGER, TRUSTEE,

Respondent.

**ORDER GRANTING MOTION OF
FREDERICK J. MURPHY FOR RELIEF FROM AUTOMATIC STAY**

Upon consideration of the Motion for Relief from Automatic Stay (the "Motion") filed by Frederick J. Murphy ("Murphy") and it appearing that cause exists to terminate the automatic stay to permit Murphy to file a petition with the United States Patent and Trademark Office (the

"USPTO") for a determination whether the Unissued Intellectual Property (as defined in the Motion) are "divisional applications" or "continuation-in-part applications", it is hereby

ORDERED, that the Motion is hereby granted; and it is further

ORDERED, that the automatic stay imposed by 11 U.S.C. § 362 is hereby terminated to permit Murphy to file petitions with the USPTO for determinations whether each of the 2001 Applications are "divisional applications" or "continuation-in-part applications" and to take all actions necessary to effectuate and facilitate the filing of the petitions (including, without limitation, filing a revocation of the existing power of attorney on file for each of the 2001 Applications and filing a new power of attorney).

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*** END OF ORDER ***